

COMMONWEALTH OF KENTUCKY
DEPARTMENT OF FINANCIAL INSTITUTIONS

THE DEPARTMENT OF FINANCIAL INSTITUTIONS
OF THE COMMONWEALTH OF KENTUCKY

PETITIONER

vs.

Norman Lyle, President
3719 Sulphur Well Knob Lick Road
Center, Kentucky 42214-8207

Shefalor Oil Co., Incorporated
100C Reynolds Road
Glasgow , Kentucky 42141

RESPONDENTS

SETTLEMENT AGREEMENT AND FINAL ORDER

1. Pursuant to KRS 292.500(1) and 292.500(3), the Commissioner ("Commissioner") of the Department of Financial Institutions, ("Department") is charged with the administration and enforcement of KRS Chapter 292, the Securities Act of Kentucky, ("Act").
2. Pursuant to KRS 292.330(12)(d), the Commissioner has the power to make such "periodic examinations, within or without this state, of each broker-dealer, firm employing issuer agents, and investment adviser at such times and in such scope as he determines. These examinations may be made without prior notice to the broker-dealer, firm employing issuer agents, or investment adviser. The expense reasonably attributable to any such examination shall be paid by the broker-dealer, firm employing issuer agents, or investment adviser whose business is examined but the expense so payable shall not exceed an amount which the commissioner by rule prescribes."
3. Pursuant to KRS 292.330(12)(d), the Commissioner has the power to examine entities and persons who offer and/or sell securities for compliance with the Act and the Regulations

enacted, and Orders entered, pursuant thereto, whether such offers and/or sales are being made directly by the issuers of the securities in question (also known as Issuers utilizing issuer agents) or whether such offers and/or sales are made by broker-dealers (traditional Firms utilizing Stockbrokers as referred to in layman's terms) who offer and/or sell the various securities of numerous different issuers.

4. The Department and the Commissioner have jurisdiction in this matter.
5. Venue is proper in Franklin County, Kentucky.

RESPONDENTS

6. Shefalom Oil Co., Incorporated ("Shefalom") or ("Shef-A-Lor") is a promoter of securities representing interests in oil and gas drilling and production programs offered through issuer agents.
7. Norman Lyle is the president of Shefalom. As such, Lyle is a "control person" of Shefalom.
8. Shefalom is an issuer that uses sales agents and must register the agents pursuant to KRS 292.330.

ALLEGATIONS

The examination resulted in certain allegations being made against the Respondents:

9. Pursuant to the authority provided by KRS 292.330(12)(d), on January 27, 2004, the Kentucky Office of Financial Institutions, Division of Securities (the "Division"), conducted a compliance examination of the home office of Shef-A-Lor Oil Company, Inc, a promoter of securities representing interests in oil & gas drilling and production programs offered through issuer-agents.
10. The examination findings indicated a number of possible violations of the Act. Based upon the serious nature and the number of violations, the Division intended to initiate

administrative proceedings against Shef-A-Lor Oil Company if a settlement could not be reached in the matter.

11. The examination revealed the following potential violations of the Act:

- a. No suitability information had been obtained on any investors as of the date of the examination.
- b. The Private Placement Memorandums did not include: a description as to how suitability information will be obtained to ensure that an investor is accredited and that the investment is suitable; aggregate annual compensation from all sources for all officers and directors, collectively, for the last year and individually, and for the three highest paid officers of the issuer, for the last year; current financial statements of the issuer and general partner; opinion of counsel as to the validity of the lease(s); a legend indicating restrictions of the transferability of the security; the firm's historical production performance, including well locations, initial production, investor cost versus investor payout, and dry holes drilled; or the amount of administrative costs, including salaries and overhead expenses to be paid from the offering proceeds.
- c. KRS 292.327(2) requires all offerings falling under this provision to be filed with the Department within 15 days of the first sale. Review of the available offering documents disclosed that the first sale of East Fork Production 2003, LTD occurred on or about October 13, 2003. The notice filing was not sent to the Department until November 10, 2003.
- d. Respondent failed to register its sales agents with the Department as agents of the issuer.

12. The points listed above are both positive and negative. Some have been corrected or could be corrected. Mr. Lyle has offered to take steps to correct any problems in order that he may stay in business, remain compliant, and avoid any administrative proceedings and the

examiners are in agreement that such a settlement is desirable and would still allow them to fulfill their role as regulators and protectors of the investing public in Kentucky.

13. Consequently, a list of proposed settlement terms was presented to Shef-A-Lor Oil Company and its owner, Respondent, Lyle. Furthermore, the caveat was included in that proposal that any settlement agreement would have to be disclosed to all investors in any security offered and sold by Shef-A-Lor Oil Company or its owners and officers. The owner, Mr. Lyle, accepted the terms offered in the communiqué and listed below.

RESPONDENT'S POSITION

14. Respondent, Norman Lyle, speaking for himself and his company, Respondent, Shef-A-Lor, Oil, Inc., believes that settlement of this matter would be in the best interest of all parties herein, and agrees with the Commonwealth that such action would be in the public interest of the citizens of the Commonwealth of Kentucky.

THE SETTLEMENT

15. A settlement has been proposed and accepted by Respondents wherein the Respondents will make certain significant concessions and the Division of Securities would forgo a substantial measure of the severity of any remedy it might seek in its complaint in return for these concessions. The public will benefit from the total settlement package, particularly the individual public customers in this matter. Pursuant to the settlement, Respondents undertake and agree to do the following.
 - a. Respondents agree to never violate the Securities Act of Kentucky in the future. In addition, Respondents agree to never violate the regulations enacted under the Securities Act of Kentucky or the Orders of the Commissioner.

- b. Respondents understand that to offer or sell securities at any time in the future, they must provide the investor or potential investor with an offering circular disclosing all material facts in connection with the investment. Respondents agree to provide within 30 days a proposed offering circular (Private Placement Memorandum) to the Division for approval as to necessary content and form. Essentially the same approved offering circular will be used for future offerings but it will affirmatively be changed to tailor its contents for each new project.
- c. Respondents understand that when they offer and/or sell securities, they must register the securities, make a notice filing, or file a claim of exemption from registration, as required.
- d. Respondents understand that any person who offers or sells their securities and/or securities issued through them must be registered as agents pursuant to KRS 292.330. In addition, Respondents understand that they may not offer or sell any security unless they first obtain and maintain appropriate registrations required by KRS 292.330.
- e. Respondents will obtain and maintain suitability information on all investors, including income, net worth, prior investment experience, and investment objectives.
- f. Respondents will maintain prospectus logs to document the date a Private Placement Memorandum and Subscription Agreement are sent to, and returned from, any potential investors.
- g. Respondents will maintain a Check Received Log to document the name of the investor, amount invested, and date the investment check was received.
- h. Respondents will develop and implement a training program for all personnel.

- i. Respondents will maintain current financial statements, such as a Statement of Assets and Liabilities, and a Statement of Income and Expenses.

THE UNDERTAKING/SETTLEMENT

WHEREAS, the staffs of the Securities Division and the Office of General Counsel of the Department, (collectively the "Staff"), in connection with an examination of this matter believe that reasonable grounds exist to believe their allegations against the Respondents, but

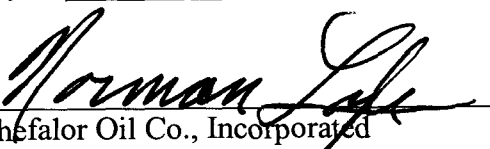
WHEREAS, it appears that circumstances may be changing over time, and

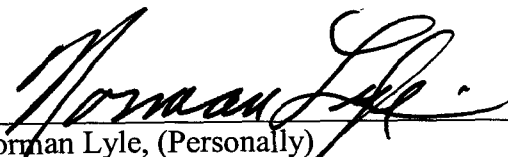
WHEREAS, Respondents have offered to take certain steps and have taken steps to allay Department concerns and Respondents understand that any failure to comply with this Undertaking shall be the basis for a recommendation by the Staff to the Commissioner or his or her successor in office for the issuance of a Notice to begin proceedings for suspension and/or revocation of their registrations pursuant to KRS 292.330 or some other appropriate sanction; and Respondents desire to resolve the examination undertaken by the staff with respect to these activities; and

WHEREAS, so long as Respondents comply with their undertakings herein and the terms of this **ORDER**, they would pose no danger to the investing public.

IN WITNESS WHEREOF, the undersigned have executed the Undertaking contained herein on the dates indicated.

Dated at Frankfort, Kentucky this 28TH
day of APRIL, 2004.


Shefalor Oil Co., Incorporated
by Norman Lyle, President


Norman Lyle, (Personally)

3719 Sulphur Well Knob Lick Road
Center, Kentucky 42214-8207

100C Reynolds Road
Glasgow, Kentucky 42141

County of: Barren
State of Kentucky

ACKNOWLEDGEMENT

On this 28 day of April, 2004, Norman Lyle personally appeared before me and acknowledged to me that he is authorized to execute this SETTLEMENT AGREEMENT AND FINAL ORDER on behalf of Shefalor Oil Co., Incorporated and the he freely signed this SETTLEMENT AGREEMENT AND FINAL ORDER.


Notary Public

My Commission Expires: 3-22-07

THE FINAL ORDER

WHEREAS, the parties and each of them have entered into a Settlement Agreement resolving the issues raised in the matter to the satisfaction of the Department and the Respondents, while keeping in mind the Department's role as guardian of the public interest in such matters; and

WHEREAS, should the terms of the settlement be honored by both sides in full, it would no longer make sense to move forward in this matter and bring it to its previously expected conclusion.

NOW, THEREFORE, IT IS HEREBY ORDERED AS FOLLOWS:

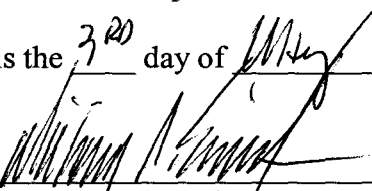
Respondents, or one of them, as applicable, hereby undertake as follows:

1. Respondents agree to never violate the Securities Act of Kentucky in the future. In addition, Respondents agree to never violate the regulations enacted under the Securities Act of Kentucky or the Orders of the Commissioner.

2. Respondents understand that to offer or sell securities at any time in the future, they must provide the investor or potential investor with an offering circular disclosing all material facts in connection with the investment. Respondents agree to provide within 30 days a proposed offering circular (Private Placement Memorandum) to the Division for approval as to necessary content and form. Essentially the same approved offering circular will be used for future offerings but it will affirmatively be changed to tailor its contents for each new project.
3. Respondents understand that when they offer and/or sell securities, they must register the securities, make a notice filing, or file a claim of exemption from registration, as required.
4. Respondents understand that any person who offers or sells their securities and/or securities issued through them must be registered as agents pursuant to KRS 292.330. In addition, Respondents understand that they may not offer or sell any security unless they first obtain and maintain appropriate registrations required by KRS 292.330.
5. Respondents will obtain and maintain suitability information on all investors, including income, net worth, prior investment experience, and investment objectives.
6. Respondents will maintain prospectus logs to document the date a Private Placement Memorandum and Subscription Agreement are sent to, and returned from, any potential investors.
7. Respondents will maintain a Check Received Log to document the name of the investor, amount invested, and date the investment check was received.
8. Respondents will develop and implement a training program for all personnel.

9. Respondents will maintain current financial statements, such as a Statement of Assets and Liabilities, and a Statement of Income and Expenses.

ENTERED AND AGREED TO this the 3rd day of May, 2004.



William P. Emrick
Acting Executive Director
Office of Financial Institutions
1025 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601
(502) 573-3390